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SUBJECT: GOT RECTIFIES ERRONEOUS VAT TAX COLLECTIONS FROM FREE TRADE ZONES

REF: ANKARA 278

¶1. (U) On February 27, the Ministry of Finance ended the collection of additional value-added (VAT) tax levied on Free Trade Zones (FTZs) operating in Turkey. Companies operating in FTZs were blindsided by a Turkish Customs Undersecretariat circular issued on January 21 (Reftel) requiring them to pay VAT on goods used for investment, consumption or internal use. This surprise change substantially increased production costs for these companies and had many contemplating leaving Turkey.

¶2. (U) According to media reports, the Finance Ministry's letter to Customs stated that all goods delivered to FTZs shall benefit from VAT exemptions. This directive by the Ministry not only lifted the additional taxes, but also simplified the process through which these goods gain VAT exemption. Now, instead of listing the items in the customs declaration, the companies can fill in a form to receive tax exemption.

¶3. (SBU) While companies operating in FTZs were pleased with the Ministry's intervention, they called for an amendment to the legislation allowing such collections to ensure that the Customs Administration cannot begin assessing these taxes again in the future. Such a change, they argued, would help renew investor confidence. "Only then can the GOT ensure sustained productivity in FTZs, which have annual trading volume of \$24 billion," said a sector representative.

¶4. (SBU) Comment: The Finance Ministry's intervention is a welcome step in restoring investor confidence. However, the fact that the Customs Administration surprised other Turkish government agencies, including reportedly the Prime Minister, with their decision to begin assessing this tax emphasizes the need for the Turkish government to streamline its tax code and amend conflicting legislation. End comment.

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